The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the nine months ended December 31, 2015

Comments by

THE CHAIR OF THE BOARD

and by

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Financial Overview

Manitoba Hydro's consolidated net loss from electricity and natural gas operations was $39 million for the first nine months of the 2015-16 fiscal year compared to a net income of $30 million for the same period last year. The decrease in net income is primarily attributable to higher expenses partially offset by higher extraprovincial revenues.

The consolidated net loss was comprised of a $21 million loss in the electricity sector and an $18 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and is expected to be recouped over the winter heating season.

Manitoba Hydro is forecasting that financial results will improve somewhat over the balance of the fiscal year and net income should reach approximately $30 million by March 31, 2016. This forecast is based on the continuation of current water flow and export market conditions and the assumption of normal winter weather. There may be additional financial reporting impacts of the Public Utilities Board (PUB) rate decision for 2015-16 but the financial statements have not been adjusted pending further clarification from the PUB.

Electricity Operations

Revenues from electricity sales within Manitoba totaled $986 million for the nine-month period, which was $6 million or 1% lower than the same period last year. The decrease in domestic revenue was primarily attributable to warmer weather compared to the prior year, partially offset by the August 1, 2015 electric rate increase. Extraprovincial revenues of $335 million were $39 million or 13% higher than the same period last year reflecting favourable foreign exchange impacts on U.S. sales and higher opportunity sales volumes, partially offset by lower dependable sales volumes. Energy sold in the export market was 8.4 billion kilowatt-hours compared to 8.2 billion kilowatt-hours sold in the same period last year. Other revenues of $69 million were $10 million or 17% higher than the same period last year primarily as a result of higher consulting and project management services provided to external entities.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $1 420 million for the nine-month period, an increase of $94 million or 7% higher than the same period last year. The increase was primarily the result of a $39 million increase in finance expense, a $29 million increase in other expenses, a $22 million increase in operating and administrative costs and a $14 million increase in depreciation and amortization expense. These increases were partially offset by a $19 million change in the net movement in regulatory deferral account balances. The increase in finance expense was primarily due to higher volumes of long-term debt to finance capital expenditures and the impact of the weakening Canadian dollar partially offset by lower interest rates. The increase in other expenses, which is partially offset by the change in the net movement in regulatory deferral accounts, is primarily the result of higher spending on demand-side management programs (DSM) and higher costs associated with consulting and project management services provided to external entities. The increase in operating and administrative costs is mainly due to higher benefit costs as a result of a lower market driven discount rate and higher costs of system maintenance. The increase in depreciation and amortization is primarily due to an increase in additions of plant and equipment coming in to service including Riel Station and the Pointe du Bois spillway.

The net loss before net movement in regulatory deferral balances is $41 million. After considering the net movement of $11 million in the regulatory deferral account balances, there is a net loss of $30 million of which $21 million is attributable to Manitoba Hydro and $9 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33⅓% share of the Wuskwatim Power Limited Partnership's operating results, for the first nine months of the 2015-16 fiscal year.

Capital expenditures for the nine-month period amounted to $1 614 million compared to $1 372 million for the same period last year. Expenditures during the current period included $602 million for the Bipole III project, $548 million related to construction of the Keeyask Generating Station and $34 million for the Pointe du Bois spillway replacement project. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred $38 million for electric DSM programs.

Natural Gas Operations

In the natural gas sector, a net loss of $18 million was incurred for the nine-month period compared to a $10 million net loss for the same period last year. Revenue, net of cost of gas sold (net revenue), was $95 million which was $11 million higher than the same period last year. The increase in net revenue was largely the result of lower gas costs compared to the prior year partially offset by warmer weather and lower customer usage than the previous period. Delivered gas volumes were 1 131 million cubic metres compared to 1 249 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $106 million compared to $107 million for the same period last year.

The net loss before net movement in regulatory deferral balances is $11 million. The $20 million change in the regulatory deferral account balance over the prior year is primarily attributable to a greater differential in the prior year between the actual cost of gas compared to PUB approved rates. After considering the net movement of $7 million in the regulatory deferral account balances, there is a net loss of $18 million.

Capital expenditures in the natural gas sector were $31 millio the current nine-month period compared to $25 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred $6 million for gas DSM programs.

Lake Winnipeg Regulation

The Government of Manitoba released the Clean Environment Commission's (CEC) report into Lake Winnipeg Regulation on October 19, 2015. The CEC concluded that Lake Winnipeg Regulation (LWR) has met its original goals to provide a reliable source of water for hydropower production on the Nelson River, and to reduce Lake Winnipeg flooding.

The CEC had been asked by the province to examine LWR as part of the Corporation's request for a final licence under The Water Power Act. Manitoba Hydro has regulated Lake Winnipeg's outflow, through the Jenpeg Control Structure on the west channel of the Nelson River, since 1976 under an interim licence.

The CEC investigated concerns about shoreline erosion, water quality, wetland habitat and the health of fishery on Lake Winnipeg. The CEC concluded that Manitoba Hydro's operations had little to no impact on those concerns, and that shoreline erosion was a natural phenomenon that would occur on Lake Winnipeg with or without LWR. The CEC also concluded that LWR has reduced the extent of flooding that would have been experienced on Lake Winnipeg during the years of heavy precipitation over the past two decades.

Natural Gas Rate Change

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers increased on November 1, 2015, by 0.7% or approximately $6 per year. Rate changes for larger volume customers ranged from decreases of 6.6% to increases of 3.4% depending on the customer class and consumption levels.

The bill impacts are the result of changes in the price that Manitoba Hydro pays for gas from Alberta, as well as the implantation of rate adjustments associated with the recovery of gas costs from prior periods.

Kelvin Shepherd named new President and CEO

On November 5, 2015, Premier Greg Selinger named Kelvin Shepherd as Manitoba Hydro's new president and chief executive officer, effective December 7, 2015. Shepherd's appointment followed a recommendation by the Manitoba Hydro-Electric Board.

Shepherd served five years as president of MTS Inc., from 2010 to 2015, and succeeds former Manitoba Hydro president and CEO Scott Thomson.

Premier Selinger said Shepherd is known for building positive relationships with customers, employees and the broader community, including Indigenous leaders.

Shepherd held various senior roles at MTS including president of consumer markets for MTS Allstream, chief operating officer, chief technical officer and vice-president of network services. Prior to joining MTS, he worked as chief technology officer at SaskTel.

Manitoba Hydro improves reliability of electricity supply

On December 8, 2015 Manitoba Hydro announced the utility was enhancing the reliability of electrical service in west Brandon by upgrading the voltage of the primary distribution system from 4 000 to 12 000 volts.

The project in Brandon continues similar work around the province, including the Gimli voltage conversion project and construction of the new Adelaide, Martin and Madison substations in Winnipeg.

All projects are part of a wider effort by Manitoba Hydro to replace and upgrade a number of its older distribution system assets across the province in order to continue to provide safe and reliable delivery of electricity, and meet an increasing demand for energy.

February 12, 2016

William Fraser, FCA
Chair of the Board

Kelvin Shepherd, P. Eng.
President and
Chief Executive Officer

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2015	**2014**	**2015**	**2014**
Revenues				
Domestic – Electric	986	992	366	380
– Gas	207	251	111	142
Extraprovincial	335	296	91	68
Other	69	59	25	22
	1 597	1 598	593	612
Expenses				
Cost of gas sold	112	167	56	88
Operating and administrative	447	427	149	143
Finance expense	438	398	153	138
Depreciation and amortization	292	278	97	83
Water rentals and assessments	93	92	32	30
Fuel and power purchased	90	87	33	33
Capital and other taxes	93	87	31	29
Other expenses	84	56	34	24
	1 649	1 592	585	568
Net income (loss) before net movement in regulatory deferral account balances	(52)	6	8	44
Net movement in regulatory deferral account balances	4	5	(7)	(7)
Net Income (Loss)	(48)	11	1	37
Net income (loss) attributable to:				
Manitoba Hydro	(39)	30	4	43
Non-controlling interest	(9)	(19)	(3)	(6)
	(48)	11	1	37

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at December 31 **2015**	As at December 31 **2014**
Assets		
Current assets	1 536	939
Capital assets	16 622	14 800
Non-current assets	594	747
Regulatory deferral account debit balances	355	376
	19 107	16 862
Liabilities and Equity		
Current liabilities	1 207	1 040
Long-term debt (net)	13 881	11 640
Other long-term liabilities	1 603	1 406
Deferred revenue	490	421
Non-controlling interest	135	107
Retained earnings	2 687	2 673
Accumulated other comprehensive income	(896)	(425)
	19 107	16 862

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2015	**2014**	**2015**	**2014**
Operating Activities				
Cash receipts from customers	1 667	1 673	552	554
Cash paid to suppliers and employees	(825)	(1 039)	(217)	(336)
Net interest	(370)	(343)	(37)	(39)
	472	291	298	179
Financing Activities	1 669	1 175	926	290
Investing Activities	(1 638)	(1 229)	(608)	(397)
Net increase in cash	503	237	616	72
Cash at beginning of period	494	142	381	307
Cash at end of period	997	379	997	379

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2015	**2014**	**2015**	**2014**
Net Income (Loss) attributable to Manitoba Hydro	(39)	30	4	43
Other Comprehensive Income (Loss)				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(168)	(86)	(61)	(61)
Realized foreign exchange (gains) losses on debt in cash flow hedges	(8)	(3)	1	(3)
	(176)	(89)	(60)	(64)
Comprehensive Loss attributable to Manitoba Hydro	(215)	(59)	(56)	(21)

Segmented Information

In Millions of Dollars (Unaudited)

Nine Months Ended December 31	Electricity		Gas		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue	1 390	1 347	207	251	1 597	1 598
Expenses	1 431	1 318	218	274	1 649	1 592
Net income (loss) before net movement in regulatory deferral account balances	(41)	29	(11)	(23)	(52)	6
Net movement in regulatory deferral account balances	11	(8)	(7)	13	4	5
Net Income (Loss)	(30)	21	(18)	(10)	(48)	11
Net income (loss) attributable to:						
Manitoba Hydro	(21)	40	(18)	(10)	(39)	30
Non-controlling interest	(9)	(19)	-	-	(9)	(19)
	(30)	21	(18)	(10)	(48)	11
Three Months Ended December 31						
Revenue	482	470	111	142	593	612
Expenses	493	443	92	125	585	568
Net income (loss) before net movement in regulatory deferral account balances	(11)	27	19	17	8	44
Net movement in regulatory deferral account balances	6	-	(13)	(7)	(7)	(7)
Net Income (Loss)	(5)	27	6	10	1	37
Net income (loss) attributable to:						
Manitoba Hydro	(2)	33	6	10	4	43
Non-controlling interest	(3)	(6)	-	-	(3)	(6)
	(5)	27	6	10	1	37
Total Assets	18 398	16 131	709	731	19 107	16 862

Generation and Delivery Statistics

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2015	**2014**	**2015**	**2014**
Electricity in gigawatt-hours				
Hydraulic generation	25 843	25 949	8 641	8 392
Thermal generation	51	30	35	14
Scheduled energy imports	51	141	29	99
Wind purchase (MB)	645	698	240	278
Total system supply	26 590	26 818	8 945	8 783
Gas in millions of cubic metres				
Gas sales	614	730	366	447
Gas transportation	517	519	201	206
	1 131	1 249	567	653

For further information contact:

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Cover: In early December 2015, Manitoba Hydro crews had to remove a large amount of built-up hoarfrost and ice from power lines following some unseasonably warm and humid weather in southern Manitoba. Ice removal is critical to avoid damage to power lines, poles, and other hardware, thereby preventing power outages.

Manitoba Hydro